

Message Text

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ACTION EB-07

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CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-02

INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00

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C O N F I D E N T I A L ABU DHABI 3231

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TAGS : ENRG, TC

SUBJECT : JEBEL DHANNA/RUWAIS GAS UTILIZATION PROJECT

REF: ABU DHABI 2887, ABU DHABI 849

1. SUMMARY: FOR THE PAST FOUR WEEKS, REPRESENTATIVES OF THE FIVE COMPANIES ASSOCIATED WITH THE PROPOSED \$1.2 BILLION JOINT VENTURE WITH ADNOC TO BUILD THE JEBEL DHANNA/RUWAIS GAS UTILIZATION PROJECT HAVE BEEN IN ABU DHABI TRYING TO ARRIVE AT SOME FINAL CONCLUSION TO THEIR LENGTHY NEGOTIATIONS. WHILE COMPANIES INITIALLY WERE OPTIMISTIC, NEGOTIATIONS WITH ADNOC FELL APART ON NOVEMBER 24 DURING A STORMY SESSION WITH ADNOC GENERAL MANAGER HAMRA KROUHA WHEN THE COMPANIES INDICATED THEY WERE UNABLE TO ACCEPT CONDITIONS SET FORTH BY KROUHA. COMPANY REPS WERE SUBSEQUENTLY ABLE TO MEET WITH FONMIN SUWAIDI ON NOVEMBER 28 WHO, AFTER HAVING BEEN BRIEFED SEPARATELY BY ADNOC AND BY COMPANIES OF DETAILS CAUSING IMPASSE, INDICATED THAT UAEG STILL WANTS COMPANY PARTICIPATION IN PROJECT. NEGOTIATIONS ARE THEREFORE EXPECTED TO RESUME SOME TIME AFTER THE EID HOLIDAYS. END SUMMARY.

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2. DESPITE AGREEMENT REACHED BETWEEN CONSORTIUM MEMBERS AND ADNOC LAST APRIL FOLLOWING DIRECT INTERVENTION OF FONMIN SUWAIDI (ABU DHABI 849), NEGOTIATIONS HAVE SINCE BEEN SPUTTERING ALONG. MAIN ISSUE HAS REVOLVED AROUND UAEG COMMITMENT TO GUARANTEE A SUBSTANTIAL AMOUNT OF CREDITS THAT WILL BE NEEDED FOR THIS \$1.2 BILLION PROJECT TO CAPTURE SOME ONE BILLION CU FT OF GAS TO PRODUCE NGL, LPG, WITH REMAINING ETHANE AND METHANE TO BE USED FOR TIME BEING TO POWER GAS TURBINES. APRIL 1 HEADS OF AGREEMENT CALLED FOR 25 PERCENT (OR \$300 MILLION) TO BE COVERED BY EQUITY INVESTMENT OF JOINT VENTURE PARTNERS (ADNOC 60 PERCENT, COMPANIES 40 PERCENT) WITH BALANCE TO BE LOAN FINANCED. A PORTION OF LOANFINANCING WOULD BE COVERED BY NORMAL SUPPLIER CREDITS BUT MOST OF THE CREDITS WOULD BE SECURED BY UAEG.

3. ADNOC GENERAL MANGER KROUHA'S STRATEGY HAS BEEN TO REDUCE AS MCUH AS POSSIBLE UAEG EXPOSURE TO GUARANTEEING REPAYMENT ON BANK FINANCING AND INCREASING EXPOSURE OF COMPANIES (EXXON, MOBIL, SHELL, CFP, AND BP HAVE 19 PERCENT EACH AND PARTEX 5 PERCENT OF THE ABU DHABI CORPORATION. LATTER WOULD PUT UP 40 PERCENT OF THE EQUITY WITH ADNOC PUTTING UP 60 PERCENT.) KROUHA'S POINT HAS BEEN THAT COMPANY'S EXPOSURE IS MINIMAL SINCE THEIR INVESTMENT AMOUNTS TO ONLY 40 PERCENT OF 25 PERCENT OF TOTAL COST (OR ABOUT \$120 MILLION WHICH BREAKS DOWN TO "ONLY" ABOUT \$23 MILLION FOR EACH INDIVIDUAL COMPANY).

4. ANOTHER PROBLEM HAS BEEN THAT KROUHA HAS BEEN UNWILLING TO ACCEPT WHAT HAD BEEN HAMMERED OUT UNDER APRIL 1 AGREEMENT THAT EACH COMPANY TAKE ON INDIVIDUALLY DIFFERENT COMPANENTS OF THE PROJECT. (I.E. ONE COMPANY WOULD BUILD LIFTING FACILITIES, ANOTHER GAS TATHERING FACILITIES, ETC.). KROUHA WANTS EACH COMPONENT OF THE PROJECT TO BE HANDLED BY SUBCONTRACTORS UNDER THE SUPERVISION OF THE JOINT VENTURE PARTNERS. COMPANIES HAVE SAID THIS WOULD DELAY PROJECT. SINCE EACH COMPANY WOULD BE ACCOUNTABLE FOR THAT PART OF PROJECT THEY WOULD BUILD, THEY FEEL THIS IS UNREASONABLE REQUIREMENT.

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5. JUST PRIOR TO LATEST BREAKUP IN NEGOTIATIONS, KROUHA PRESENTED COMPANIES WITH A PACKAGE. THREE MOST IMPORTANT ELEMENTS CALLED FOR: A) GUARANTEES BY THE COMPANIES THAT THEY WOULD LIFT ALL OF THEIR SHARE OF THE PRODUCTION; B) CHANGING THE BORROWING ENTITY FOR LOANS FROM THE JOINT VENTURE TO THE COMPANY-OWNED ABU DHABI CORPORATION; AND C) PLACING ALL REVENUES RECEIVED WITH AN INDEPENDENT BANKING TRUSTEE WHO WOULD BE INSTRUCTED BY THE JOINT VENTURE HOW TO

DISBURSE INCOME RECEIVED. KROUHA SAW LATTER AS ASSURING THAT REPAYMENT OF LOAN OBLIGATIONS WOULD RECEIVE PRIORITY. IN MEETING ON NOVEMBER 24, COMPANIES REFUSED THIS PACKAGE ON GROUNDS THAT A) LIFTING GUARANTEES WOULD PRESENT ANTI-TRUST PROBLEMS, B) MAKING THE ADC THE BORROWING ENTITY WAS IMPRACTICAL AND RAISED SERIOUS LEGAL PROBLEMS, AND C) HAVING AN INDEPENDENT BANKING TRUSTEE WOULD ONLY COMPLICATE MANAGEMENT AND IMPLIED A LACK OF FAITH IN COMPANIES' HONESTY. KROUHA'S REACTION TO COMPANIES REFUSAL WAS STORMY, EXDING WITH KROUHA NOTING THAT THIS PROVED ONE COULDN'T DEAL WITH COMPANIES AND A WARNING THAT THIS MIGHT AFFECT THEIR "OTHER OPERATIONS IN UAE". AS FAR AS GAS PROJECT WAS CONCERNED, KROUHA SAID ADNOC WOULD GO IT ALONE.

6. BEFORE DISPERSING, COMPANIES ASKED TO SEE FONMIN SUWAIDI WHO HAD INTERVENED EARLIER TO GET PROJECT BACK ON TRACK. DESPITE HIS PREOCCUPATIONS WITH MEETINGS OF SUPREME COUNCIL ON ELECTION OF UAE PRESIDENT FOR NEXT FIVE YEARS AND HAVING JUST RETURNED FROM GULF FOREIGN MINISTERS MEETING IN MUSCAT, SUWAIDI TOOK THE TIME TO GET BRIEFED INDEPENDENTLY BY KROUHA AND THEN BY COMPANIES. ON NOVEMBER 28, MOBIL REP ENSOR AND SHELL REP HORTON WERE TOLD BY SUWAIDI THAT UAEG PREFERRED TO HAVE "ITS FRIENDS" PARTICIPATE IN PROJECT AND THAT IT WAS IMPORTANT THAT PROJECT BE DEVELOPED ON BASIS OF CONFIDENCE AND MUTUAL RESPECT. SUWAIDI TOLD COMPANY RYS THAT SOME PEOPLE THINK STUBBORNNESS WAS A DEMONSTRATION OF STRENGTH BUT THE UAEG LEADERSHIP "KNEW BETTER". SUWAIDI ALSO SAID THAT IT WOULD REQUIRE ONE OR TWO MORE MEETINGS WITHIN UAEG AFTER THE EID HOLIDAYS TO RESOLVE THESE "PETTY POINTS OF DIFFERENCE" AND THEREAFTER, UAEG WOULD BE IN TOUCH WITH CONFIDENTIAL

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COMPANIES. AS A RESULT, COMPANY REPS LEFT CONSIDERABLY HEARTENED.

7. COMMENT: DESPITE THE COMPANIES' RENEWED OPTIMISM, IT REMAINS TO BE SEEN IF A TURNING POINT HAS BEEN REACHED IN THESE LENGTHY NEGOTIATIONS. KROUHA WAS SUFFICIENTLY CONFIDENT THAT HIS POINT OF VIEW WOULD PREVAIL THAT HE LEFT FOR BANGKOK ON EID HOLIDAYS THE DAY BEFORE SUWAIDI CONVEYED THE UAEG POSITION TO COMPANY REPS. THE ONLY WAY WE SEE THE COMPANIES COMING BACK INTO THIS PROJECT WILL BE IF UAEG LEADERSHIP ORDERS KROUHA TO MOVE AHEAD ON BASIS APRIL 1 AGREEMENT WITHOUT ANY FURTHER ARGUMENTS, WHICH WOULD BE CONSIDERABLE LOSS OF FACE FOR KROUHA AND COULD MEAN THE END OF HIS SECONDMENT TO UAEG FROM SONATRACH. OTHERWISE, KROUHA WILL AGAIN INSIST ON HIS PACKAGE. WITH OIL MINISTER

UTAYBA DIVORCING HIMSELF FROM THE WHOLE AFFAIR, COMPANIES
REALLY HAVE RESORT ONLY TO OVERWORKED SUWAIDI WHO DOES
NOT HAVE TIME TO FOLLOW ALL COMPLEX DETAILS OF NEGOTIATIONS
THIS MAMMOTH PROJECT.
DICKMAN

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